

PROVIDING FULL DEPOSIT INSURANCE FOR PUBLIC
UNITS AND TO INCREASE DEPOSIT INSURANCE FROM
\$20,000 TO \$50,000

JANUARY 21, 1974.—Committed to the Committee of the Whole House on the
State of the Union and ordered to be printed

Mr. PATMAN, from the Committee on Banking and Currency,
submitted the following

REPORT

with

ADDITIONAL VIEWS

[To accompany H.R. 11221]

The Committee on Banking and Currency, to whom was referred the bill (H.R. 11221) to provide full deposit insurance for public units and to increase deposit insurance from \$20,000 to \$50,000, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Page 7, immediately after line 2, insert the following new subsection:

(d) Section 107(7) of the Federal Credit Union Act (12 U.S.C. 1757(7)) is amended by adding at the end thereof the following: "and to receive from an officer, employee, or agent of those nonmember units of Federal, State, or local governments and political subdivisions thereof enumerated in section 207 of this Act (12 U.S.C. 1787) and in the manner so prescribed payments on shares, share certificates, and share deposits;".

DEPOSIT INSURANCE—GENERAL BACKGROUND

The creation of the Federal Deposit Insurance Corporation by the Banking Act of 1933 initially established a deposit insurance limit of \$2,500. Title IV of the National Housing Act of 1934 created the Federal Savings and Loan Insurance Corporation with an account

coverage of \$5,000. In 1950, limitations were raised to \$10,000. In recent times following periods of extreme monetary tightness referred to as "credit crunch" periods, additional increases in insurance coverage ceilings were enacted. On October 16, 1966, the increase was from \$10,000 to \$15,000 and on December 23, 1969, the increase was from \$15,000 to \$20,000, where it stands at present.

Savings and loan associations, mutual savings banks and credit unions experienced a massive outflow of savings, contributing to the present severe shortage of funds available for mortgage lending, during the quarter beginning July 1, 1973. This disintermediation, in large part, was a direct result of regulatory agency action on July 5, subsequently modified, relating to interest rate differentials and permissible ceilings on consumer certificates of deposits. As a consequence, your committee held extended hearings during the month of September on the current credit crisis in an effort to find ways to deal with the immediate critical situation. A number of witnesses urged that consideration be given to increasing deposit insurance making reference to the apparent salutary effect of previous increases following severe disintermediation periods.

The majority of the committee, in reporting this bill, after further extended hearings dealing with the deposit insurance concept, believes that its passage, while not offered as a total solution, will further help relieve the present crisis by providing wider selection, higher yield and greater convenience for public officials who have custody of public funds and will provide a significant incentive for individual depositors to utilize those financial institutions concerned with making available home mortgage funds at reasonable interest rates.

FULL DEPOSIT INSURANCE FOR PUBLIC UNITS

Section 1 provides for 100 percent coverage for deposits of public funds in the custody of city, county, State, and Federal officials, deposited in insured banks, savings banks, savings and loan associations, and credit unions without regard to the present \$20,000 ceiling. Federal regulatory agencies are given the authority to limit the aggregate amount of public funds which can be invested in any one bank, savings and loan institution, mutual savings bank and credit union to insure that financial institutions maintain a proper balance among depositors by not over-subscribing to one or more government deposits.

At the present time, public units generally are required to insure that their deposits are protected by the pledging of municipal or other government obligations. Financial institutions, other than commercial banks, as a result of their financial structure and certain legal limitations, are unable to purchase and pledge sufficient amounts of municipal or other government obligations and therefore are unable to attract the deposits of public units. As a consequence, the more than \$30 billion in State and local funds of necessity are on deposit in commercial banks. The enactment of Section 1 would have the effect of insuring a more even distribution of idle funds among all financial institutions by making it possible for all thrift institutions to attract public funds. These additional financial resources will offset to a

modest degree some of the disintermediation effects of the "rate war" of 1973 which prompted the passage of Public Law 93-123.

The enactment of Section 1 will not impose a hardship on commercial banks nor deprive them of a substantial portion of their Government deposits due to the nature of such accounts. Many of these deposits are held in checking accounts, many are of an exceedingly short term nature with more than several billion dollars in Federal tax and loan accounts.

Your committee, having carefully considered the argument advanced that the elimination of pledging would adversely affect the State and municipal securities markets, believes that such securities are purchased on the basis of yield and quality, not as collateral. Full insurance of public deposits would provide uniformity and convenience and would eliminate the expensive burden of handling collateral. The increased competition that will result with greater participation by savings and loan associations, mutual savings banks, and credit unions will cause more spirited bidding for public time deposits and, hence, greater income to State and local governments, with higher yields and better service.

INCREASED CEILING ON DEPOSIT INSURANCE

Sections 2, 3 and 4 provide for an increase from the present \$20,000 to \$50,000 for accounts in commercial banks, mutual savings banks, savings and loan associations and credit unions respectively. The effects of inflation alone mandate a significant increase in insurance coverage at this time, a fact acknowledged by all witnesses heard by the committee, including representatives of each financial regulatory agency. It is interesting to note in 1969 that the Federal Home Loan Bank in supporting an increase from the then \$15,000 ceiling to a \$25,000 ceiling wrote "Six years ago in its written report and oral testimony on your (Mr. Patman's) bill, H.R. 5130 of the 88th Congress, the Board favored the increase in this ceiling (then \$10,000) to \$25,000". Thus, in 1963, the agencies responsible for the actuarial soundness of their respective insurance funds were in favor of a limitation of \$25,000.

A substantial increase at this time clearly dictated by current economic conditions will insure 75% of all insured bank deposits and over 95% of savings and loan association deposits with negligible impact on the respective insurance funds. Savings accounts in many instances represent an individual's entire life savings. The increase to \$50,000 permits the average saver, often unschooled in investment alternatives to have absolute security. The higher coverage also will provide greater convenience to depositors and will eliminate an inequity between single and married persons. The necessity for a number of accounts in a variety of institutions will be eliminated. The increase will enable federally insured depository institutions of all sizes to compete more effectively for deposits ranging up to the higher insured limit and will help commercial banks, mutual savings banks, savings and loan associations and credit unions of all sizes to sustain their competitive position in the market for savings during periods of high interest rates.

SECTION-BY-SECTION EXPLANATION OF THE COMMITTEE BILL

Section 1. Full Deposit Insurance

A provision which would provide full deposit insurance with respect to insured banks, savings and loan institutions and credit unions in connection with deposits by Federal, State and local units of government. In each case, however, the appropriate corporation or the administrator in the case of credit unions may limit the aggregate amount of funds that any one public unit could deposit in each depository institution on the basis of size of any such institution in terms of its assets.

Section 2. Deposit Insurance Increase for Commercial Banks and Mutual Savings Banks

A provision which would increase deposit insurance coverage on accounts in commercial banks and mutual savings banks insured by FDIC from \$20,000 to \$50,000.

Section 3. Deposit Insurance Increase for Savings and Loan Associations

A provision which would increase deposit insurance coverage on accounts in savings and loan associations insured by FSLIC from \$20,000 to \$50,000.

Section 4. Deposit Insurance Increase for Credit Unions

A provision which would increase deposit insurance coverage on accounts in credit unions.

COST OF CARRYING OUT THE BILL AND COMMITTEE VOTE

In compliance with clause 7 of rule XIII of the Rules of the House of Representatives, the following statement is made relative to the cost incurred in carrying out this bill. The Committee believes that existing agencies and staff therein are adequate to carry out the objectives of this legislation.

In compliance with clause 27 of rule XI of the Rules of the House of Representatives, the following statement is made relative to the record vote of the motion to report a bill. A total of 23 votes was cast for reporting, 3 were cast against reporting and a total of 7 abstained.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

FEDERAL DEPOSIT INSURANCE ACT

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SEC. 3. As used in this Act * * *

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(m) The term "insured deposit" means the net amount due to any depositor (other than a depositor referred to in the third sentence of

this subsection) for deposits in an insured bank (after deducting off-sets) less any part thereof which is in excess of **[\$20,000]** \$50,000. Such net amount shall be determined according to such regulations as the Board of Directors may prescribe, and in determining the amount due to any depositor there shall be added together all deposits in the bank maintained in the same capacity and the same right for his benefit either in his own name or in the names of others except trust funds which shall be insured as provided in subsection (i) of section 7. Each officer, employee, or agent of the United States, of any State of the United States, of the District of Columbia, of any Territory of the United States, of Puerto Rico, of Guam, of American Samoa, or of the Virgin Islands, of any county, of any municipality, or of any political subdivision thereof, herein called "public unit," having official custody of public funds and lawfully depositing the same in an insured bank, for the purpose of determining the amount of the insured deposits, be deemed a depositor in such custodial capacity separate and distinct from any other officer, employee, or agent of the same or any public unit having official custody of public funds and lawfully depositing the same in the same insured bank in custodial capacity. For the purpose of clarifying and defining the insurance coverage under this subsection and subsection (i) of section 1, the Corporation is authorized to define, with such classifications and exceptions as it may prescribe, terms used in those subsections, in subsection (p) of section 3, and in subsections (a) and (i) of section 11 and the extent of the insurance coverage resulting therefrom.

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Sec. 7. (a) (1) * * *

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(i) **[Trust]** *Except with respect to trust funds which are owned by a depositor referred to in paragraph (2) of section 11(a) of this Act, trust funds held by an insured bank in a fiduciary capacity whether held in its trust department or held or deposited in any other department of the fiduciary bank shall be insured in an amount not to exceed **[\$20,000]** \$50,000 for each trust estate, and when deposited by the fiduciary bank in another insured bank such trust funds shall be similarly insured to the fiduciary bank according to the trust estates represented. Notwithstanding any other provision of this Act, such insurance shall be separate from and additional to that covering other deposits of the owners of such trust funds or the beneficiaries of such trust estates. The Board of Directors shall have power by regulation to prescribe the manner of reporting and of depositing such trust funds.*

Sec. 11. (a) (1) The Temporary Federal Deposit Insurance Fund and the Fund For Mutuals heretofore created pursuant to the provisions of section 12B of the Federal Reserve Act, as amended, are hereby consolidated into a Permanent Insurance Fund for insuring deposits, and the assets therein shall be held by the Corporation for the uses and purposes of the Corporation: *Provided, That the obligations to and rights of the Corporation, depositors, banks, and other persons arising out of any event or transaction prior to the effective date (September 21, 1950) of this amendment shall remain unimpaired. On and after August 23, 1935, the Corporation shall insure*

the deposits of all insured banks as provided in this Act: *Provided, further, That the insurance shall apply only to deposits of insured banks which have been made available since March 10, 1933, for withdrawal in the usual course of the banking business: Provided further, That if any insured bank shall, without the consent of the Corporation, release or modify restrictions on or deferments of deposits which had not been made available for withdrawal in the usual course of the banking business on or before August 23, 1935, such deposits shall not be insured. [The] Except as provided in paragraph (2), the maximum amount of the insured deposit of any depositor shall be [\$20,000] \$50,000.*

(2) (A) *Notwithstanding any limitation in this Act or in any other provision of law relating to the amount of deposit insurance available for the account of any one depositor, in the case of a depositor who is—*

(i) *an officer, employee, or agent of the United States having official custody of public funds and lawfully investing the same in an insured bank;*

(ii) *an officer, employee, or agent of any State of the United States, or of any county, municipality, or political subdivision thereof having official custody of public funds and lawfully investing the same in an insured bank in such State;*

(iii) *an officer, employee, or agent of the District of Columbia having official custody of public funds and lawfully investing the same in an insured bank in the District of Columbia; or*

(iv) *an officer, employee, or agent of the Commonwealth of Puerto Rico, of the Virgin Islands, of American Samoa, or of Guam, or of any county, municipality, or political subdivision thereof having official custody of public funds and lawfully investing the same in an insured bank in the Commonwealth of Puerto Rico, the Virgin Islands, American Samoa, or Guam, respectively;*

his deposit shall be insured for the full aggregate amount of such deposit.

(B) *The Corporation may limit the aggregate amount of funds that may be deposited in any insured bank by any depositor referred to in subparagraph (A) of this paragraph on the basis of the size of any such bank in terms of its assets.*

* * * * *

(i) The articles of association and the organization certificate of the new bank shall be executed by representatives designated by the Corporation. No capital stock need be paid in by the Corporation. The new bank shall not have a board of directors, but shall be managed by an executive officer appointed by the board of directors of the Corporation who shall be subject to its directions. In all other respects the new bank shall be organized in accordance with the then existing provisions of law relating to the organization of national banking associations. The new bank may, with the approval of the Corporation, accept new deposits which shall be subject to withdrawal on demand and which, except where the new bank is the only bank in the community, shall not exceed [\$20,000] \$50,000 from any depositor. The new bank, without application to or approval by the Corporation, shall be an insured bank and shall maintain on deposit with the Federal Reserve bank of its district reserves in the amount required by law for

member banks, but it shall not be required to subscribe for stock of the Federal Reserve bank. Funds of the new bank shall be kept on hand in cash, invested in obligations of the United States, or in obligations guaranteed as to principal and interest by the United States, or deposited with the Corporation, with a Federal Reserve bank, or, to the extent of the insurance coverage thereon, with an insured bank. The new bank, unless otherwise authorized by the Comptroller of the Currency, shall transact no business except that authorized by this Act and as may be incidental to its organization. Notwithstanding any other provision of law the new bank, its franchise, property, and income shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority.

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TITLE IV OF THE NATIONAL HOUSING ACT

TITLE IV—INSURANCE OF SAVINGS AND LOAN ACCOUNTS

DEFINITIONS

SEC. 401. As used in this title—

(a) The term “insured institution” means an institution whose accounts are insured under this title.

(b) The term “insured member” means an individual, partnership, association, or corporation which holds an insured account. Each officer, employee, or agent of the United States, of any State of the United States, of the District of Columbia, of any Territory of the United States, of Puerto Rico, of the Virgin Islands, of any county, of any municipality, or of any political subdivision thereof, herein called “public unit”, having official custody of public funds and lawfully investing the same in an insured institution shall, for the purpose of determining the amount of the insured account, be deemed an insured member in such custodial capacity separate and distinct from any other officer, employee, or agent of the same or any public unit having official custody of public funds and lawfully investing the same in the same insured institution in custodial capacity. **[Funds]** *Except in the case of an insured member referred to in the preceeding sentence, funds held in fiduciary capacity, when invested in an insured institution, shall be insured in an amount not to exceed **[\$20,000]** \$50,000 for each trust estate, and notwithstanding any other provisions of this Act, such insurance shall be separate from and additional to that covering other investments by the owners of such trust funds or the beneficiaries of such trust estates. Notwithstanding any other provision of law, two persons who are husband and wife shall have, with respect to accounts in an insured institution which are community property of such husband and wife and to the extent that such accounts are community property, not to exceed **[\$20,000]** \$50,000 of insurance with respect to*

such an account or accounts in the sole name of the husband, not to exceed [\\$20,000] \$50,000 of insurance with respect to such an account or accounts in the sole name of the wife, and not to exceed [\\$20,000] \$50,000 of insurance with respect to such an account or accounts in the sole name of both: Provided, That in no event shall this sentence increase to an amount which is greater than the total of the amounts hereinbefore set forth in this sentence the aggregate of the insurance which such husband and wife may have under this title with respect to (1) any account or accounts in such institution in the sole name of either of them or in the sole names of both, and (2) any other account or accounts in such institution to the extent that such other account or accounts would, in the absence of this sentence, be required to be included in determining the amount of the individual insurance of such husband or of such wife under subsection (a) of section 405.

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PAYMENT OF INSURANCE

SEC. 405. (a) Each institution whose application for insurance under this title is approved by the Corporation shall be entitled to insurance up to the full withdrawal or repurchasable value of the accounts of each of its members and investors (including individuals, partnerships, associations, and corporations) holding withdrawable or repurchasable shares, investment certificates, or deposits, in such institution; except that no member or investor (*other than a member or investor referred to in subsection (d)*) of any such institution, shall be insured for an aggregate amount in excess of [\\$20,000] \$50,000. For the purpose of clarifying and defining the insurance coverage under this subsection and subsection (b) of section 401, the Corporation is authorized to define, with such classifications and exceptions as it may prescribe, terms used in those subsections and in subsection (c) of section 401 and the extent of the insurance coverage resulting therefrom.

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(d) (1) *Notwithstanding any limitation in this subchapter or in any other provision of law relating to the amount of deposit insurance available for any one account, in the case of an insured member who is—*

(i) *an officer, employee, or agent of the United States having official custody of public funds and lawfully investing the same in an insured institution;*

(ii) *an officer, employee, or agent of any State of the United States, or of any county, municipality, or political subdivision thereof having official custody of public funds and lawfully investing the same in an insured institution in such State;*

(iii) *an officer, employee, or agent of the District of Columbia having official custody of public funds and lawfully investing the same in an insured institution in the District of Columbia; or*

(iv) *an officer, employee, or agent of the Commonwealth of Puerto Rico, or of the Virgin Islands, or of any county, municipality, or political subdivision thereof having official custody of public funds and lawfully investing the same in an insured institution in the Commonwealth of Puerto Rico or the Virgin Islands, respectively;*

the account of such insured member shall be insured for the full aggregate amount of such account.

(2) The Corporation may limit the aggregate amount of funds that may be invested in any insured institution by any insured member referred to in paragraph (1) of this subsection on the basis of the size of any such institution in terms of its assets.

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FEDERAL CREDIT UNION ACT

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POWERS

SEC. 107. A Federal credit union shall have succession in its corporate name during its existence and shall have power—

(1) * * *

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(7) to receive from its members or other federally insured credit unions payments on shares, share certificates, or share deposits, and, in the case of credit unions serving predominantly low-income members (as defined by the Administrator), to receive payments on shares, share certificates, or share deposits from nonmembers; and to receive from an officer, employee, or agent of those nonmember units of Federal, State, or local governments and political subdivisions thereof enumerated in section 207 of this Act (12 U.S.C. 1787) and in the manner so prescribed payments on shares, share certificates, and share deposits;

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PAYMENT OF INSURANCE

SEC. 207. (a) (1) * * *

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(c) (1) Whenever an insured credit union shall have been closed for liquidation on account of bankruptcy or insolvency, payment of the insured accounts in such credit union shall be made by the Administrator as soon as possible, subject to the provisions of subsection (d) of this section. [For] *Subject to the provisions of paragraph (2), for the purposes of this subsection, the term "insured account" means the total amount of the account in the member's name (after deducting offsets) less any part thereof which is in excess of [\$20,000] \$50,000.* Such amount shall be determined according to such regulations as the Administrator may prescribe, and, in determining the amount due to any member, there shall be added together all accounts in the credit union maintained by him for his own benefit either in his own name or in the names of others. The Administrator may define, with such classification and exceptions as he may prescribe, the extent of the insurance coverage provided for member accounts, including member accounts in the name of a minor, in trust, or in joint tenancy. The Administrator, in his discretion, may require proof of claims to

be filed before paying the insured accounts, and in any case where he is not satisfied as to the validity of a claim for an insured account, he may require the final determination of a court of competent jurisdiction before paying such claim.

(2) (A) *Notwithstanding any limitation in this Act or in any other provision of law relating to the amount of insurance available for the account of any one depositor or member, in the case of a depositor or member who is—*

(i) *an officer, employee, or agent of the United States having official custody of public funds and lawfully investing the same in a credit union insured in accordance with this title;*

(ii) *an officer, employee, or agent of any State of the United States, or of any county, municipality, or political subdivision thereof having official custody of public funds and lawfully investing the same in a credit union insured in accordance with this title in such State;*

(iii) *an officer, employee, or agent of the District of Columbia having official custody of public funds and lawfully investing the same in a credit union insured in accordance with this title in the District of Columbia; or*

(iv) *an officer, employee, or agent of the Commonwealth of Puerto Rico, of the Panama Canal Zone, or of any Territory or possession of the United States, or of any county, municipality, or political subdivision thereof having official custody of public funds and lawfully investing the same in a credit union insured in accordance with this title in the Commonwealth of Puerto Rico, the Panama Canal Zone, or any such territory or possession, respectively;*

his account shall be insured for the full aggregate amount of such account.

(B) *The Administrator may limit the aggregate amount of funds that may be invested or deposited in any credit union insured in accordance with this title by any depositor or member referred to in subparagraph (A) on the basis of the size of any such credit union in terms of its assets.*

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ADDITIONAL VIEWS OF RICHARD T. HANNA

I want to clarify for my colleagues in the House, the reason for my opposition to the passage of H.R. 11221. I voted against reporting the bill from the Committee on Banking and Currency primarily because I felt that the measure was ill-timed and held out a real danger of the House sacrificing to the other body its opportunity to study and influence several very fundamental issues affecting the nation's financial institutions.

It is my opinion that the timing of this effort in the Committee was most inappropriate. Coming at the tailend of a session as it does its future is highly suspect. Furthermore, it seems to me that this question of 100% insurance of public funds should be taken up in the larger context of the financial institutions reform which everyone in the industry agrees should take place. The Administration and

Members of Congress have in different ways let it be known that a general review and reform seems in order. Were the limited bill before us to be enacted, it would prejudice the considerations of the larger issues next year.

In addition to the timing-problem, I foresaw the very real danger that if the House were to pass the bill (a dubious proposition given a divided committee), it would not be treated by the Senate as an isolated matter but would become the vehicle for a myriad of add-ons. The track record of FHA extension bills ought to make that lesson clear to us all. In this regard, I was afraid that larger issues would be acted upon in the Conference Committee without the full House Committee having an opportunity for a constructive input.

ADDITIONAL VIEWS TO H.R. 11221

While we are in general agreement with the intended goals of this bill, we believe that the proposed increase in the deposit insurance on individual accounts from \$20,000 to \$50,000, a jump of 150%, is excessive. It is our intention to support a Floor amendment to reduce the insured maximum provided by this legislation from the \$50,000 recommended in the Committee bill to a more reasonable figure of \$30,000 or \$35,000.

Proponents of the \$50,000 maximum have claimed that it is necessary in order to respond to inflation and the shortage of home mortgage funds. This simply is not the case. There is little evidence to support the theory that the major increases in savings accounts will be in thrift institutions, due to the attraction of the differential in interest rates, thereby giving a boost to the home mortgage market. In reality, there is no way in which to predict with any accuracy the projected trends in the increases in types of accounts. The ultimate result could well be a concentration of assets in certain institutions, rather than merely a shift of funds from commercial banks to mutual savings banks and savings and loan associations. The last increase in 1969 was in the magnitude of 33% (from \$15,000 to the present \$20,000). Surely it cannot be claimed, even in the midst of an economic stabilization program and after two dollar devaluations, that an increase of 150% is a reasonable or necessary figure.

Under present law, a family of four (i.e., a husband and wife with two children) through a combination of accounts can have insured coverage up to \$280,000 in a single institution; and there is no limitation on the number of institutions where this can be duplicated. There aren't very many families with \$280,000, let alone the \$700,000 that would be covered if the maximum insured amount were raised to \$50,000 per account. Using the same family of four as an example, if the maximum insured coverage were raised to \$30,000 or \$35,000, such as we endorse, the amount insurable in a single institution through this same combination of accounts would jump to \$420,000 or \$490,000 respectively.¹ This would certainly seem to be ample even for the most affluent.

Both Chairman Wille of the Federal Deposit Insurance Corporation, which insures commercial banks and mutual savings banks, and Chairman Bomar of the Federal Home Loan Bank Board, which administers the insurance of savings and loan associations by the Fed-

¹ Insured accounts for a family of 4 in a single institution:

1. Four single accounts: Husband, wife, son, daughter.
2. Four joint accounts: Husband and wife, husband and son, wife and daughter, son and daughter. (In the case of a joint account, combined liability for a single person cannot exceed \$20,000 limitation and still be insured.)
3. Six accounts in trust: Husband in trust for son, husband in trust for daughter, wife in trust for son, wife in trust for daughter, husband in trust for wife, wife in trust for husband.

eral Savings and Loan Insurance Corporation, expressed their preference for an increase to a figure of \$30,000 or \$35,000. Both Chairmen agreed that the issue of inflation was not sufficient to justify the proposed increase to \$50,000.

The effect of the added exposure to the insurance funds if an increase to \$50,000 were approved cannot be overlooked. In commercial banks for example, nearly an additional 10% of all deposits would become covered (increasing from 60.9% to 69.3%); and the ratio of the insurance fund to insured deposits would drop from 1.28% to 1.13%; and as much as \$10 billion would be added to the liability of the FSLIC by the full increase. These figures are approximately *double* the increase in exposure that would be afforded by our proposal of raising the maximum to \$30,000.

Added to this huge leap in the potential liabilities of the insurance funds is the concern that the change in emphasis from the protection of the depositor to the protection of the banker portends a new and unsuitable role for the insurers. Witnesses from the financial community presented with great forcefulness the position that the present system of deposit insurance provides an incentive to the management of these financial institutions to operate under sound practices in order to attract depositors with large accounts. The maintenance of this incentive would be poorly served by letting the bankers off the hook of responsibility, by assuming the liability for the integrity of these large accounts.

Overall, we feel that it is necessary to bring to the attention of our colleagues the fact that an increase in deposit insurance on individual accounts is timely; but that it should be made in an amount which is identifiable in terms of the changes in the worth of the account. To go beyond this point at this time would be a mistake, since there is no way to predict accurately the dislocations which could occur in the pattern of accounts in the various types of depository institutions.

Later this year, the Banking and Currency Committee will undoubtedly be taking up the subject of the reform and restructuring of the nation's financial institutions. At that time, there will be an opportunity to review and evaluate the effects of this legislation and to determine whether further increases in the insurance of individual accounts is warranted. At this time, however, an increase beyond \$30,000 or even \$35,000 exceeds reasonable needs and enters the realm of affecting the balances among the various types of financial institutions, a step which should only be taken with sufficient knowledge of what these effects will be.

We ask our colleagues to join us in amending this bill to provide an increase in the insurance on individual accounts to \$30,000, or possibly \$35,000, but an amount which generously provides for the inflation which has taken place since 1969 as well as a margin of safety for the savers who place their money in these federally-insured institutions.

JOHN H. ROUSSELOT.
PHILIP M. CRANE.



